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August 17, 2001

Audit Related Memorandum  
2001-AT-1805

MEMORANDUM FOR: Mack Heaton, Director, Office of Public Housing, 4CPH

FROM: Nancy H. Cooper  
District Inspector General for Audit-Southeast, 4AGA

SUBJECT: Parrish Housing Authority  
Parrish, Alabama

At your request, we conducted a limited review of the Parrish Housing Authority's (PHA) program operating funds. We reviewed the disbursements relating to the PHA's American Express credit card assigned to the Chairman of the Board of Commissioners. Based on our review, we found that the Chairman used the PHA's credit card to purchase personal items. We also determined that the Chairman owes the PHA \$6,454 for personal charges paid by the PHA.

Within 60 days, please give us a status report for each recommendation on: (1) the corrective action taken, (2) the proposed corrective action and a planned implementation date, or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued as a result of the review.

We referred our results to the Office of Investigations. Therefore, please coordinate the recommended actions with Daniel Salas, Special Agent-in-Charge. You can contact him at (404) 331-3359. Should you have any questions, please contact me or Sonya D. Lucas, Assistant District Inspector General for Audit, at (404) 331-3369.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

Our primary objective was to determine whether the Board Chairman misused the PHA's credit card. To accomplish the objective, we tested the eligibility of all credit card charges made by the Chairman of the Board and the supporting documentation. We reviewed the general ledgers, cash disbursement journals, annual financial statements, and policies/procedures manuals. We evaluated internal controls for expenditures paid and checks written, and interviewed persons involved or connected with the financial activities. Our review covered the period from January 1998 through January 2001. The PHA's records subsequent to January 2001 were not available during our review.

We discussed our report with HUD officials during our review and at an August 2, 2001, exit conference. HUD generally agreed with our conclusions and recommendations, but did not provide a written response.

## **BACKGROUND**

The Parrish Housing Authority is a non-profit corporation organized under the laws of the State of Alabama. Its primary mission is to provide low-income housing for qualified individuals. A Board of Commissioners appointed by the Mayor of Parrish governs the PHA. The Commissioners have a responsibility to the Department of Housing and Urban Development (HUD) to ensure national policies are carried out, and to the Executive Director and staff to provide sound and manageable directives.

HUD's Alabama State Office of Public and Indian Housing, in Birmingham, Alabama, is responsible for overseeing the PHA. The PHA maintains its records at 25 Bank Street, Parrish, Alabama. The PHA owns and manages 18 public housing units.

## **CRITERIA**

HUD Handbook 7510.1 G, Section II (3) states that effective control and accountability must be maintained for all cash, real and personal property, and other assets. The housing authority must adequately safeguard all such property and must assure that it is used solely for authorized purposes. In addition, Section II (5) provides, in part, that funds are allotted by HUD to housing authorities for costs that are: (1) necessary and reasonable for administration of the program; (2) authorized or not prohibited by State or local law; (3) either a direct cost of the program or an indirect cost which is proper for the program and allocated to the program on an equitable basis; and (4) consistent with the policies, regulations, and procedures that apply uniformly to both the HUD program and other activities of the housing authority.

Section 9 of the Annual Contributions Contract states that housing authorities may withdraw funds from the General Fund only for development cost and operation of projects under the Annual Contributions Contract with HUD.

The Code of Alabama, Title 24 Article II, states that the appointing authority may remove members of the Board of Commissioners for certain reasons. One reason includes a Commissioner that takes any action which is contrary to HUD and housing authority rules, regulations, or policy, or takes any action which is adverse to the best interest of the housing authority, its staff, or residents.

## **RESULTS**

The PHA's Chairman of the Board of Commissioners used the PHA's American Express credit card for personal expenses. Top management at the PHA did not implement the necessary controls over the operating funds. The PHA's Chairman intentionally disregarded existing internal controls maintained by the Executive Director. Further, the abuse continued because the Executive Director did not timely notify HUD. The Chairman's actions were not in the best interest of the PHA, its staff, or residents and resulted in \$6,454 of ineligible personal expenses for which the PHA was not reimbursed. Therefore, PHA funds intended to benefit housing residents were not available.

From December 1997 to January 2001, the Chairman charged ineligible items totaling \$11,187 in 116 instances (See Attachment A). The ineligible charges included cellular phone bills, food, tires, clothes, and car expenses. The Chairman acknowledged her inappropriate use of the PHA's credit card in two letters. In a letter dated February 26, 1999, the Chairman agreed to repay the PHA in installments, which included an initial payment of \$600 and monthly payments of \$300, until the personal debt was paid. However, in a subsequent letter dated December 29, 1999, the Chairman reduced the monthly payment amount to \$25, due to limited income after her spouse's death.

In 1998, prior to the repayment letters, the Chairman paid the PHA \$3,947. Subsequently, the Chairman paid an additional \$786. Those were the only payments made. The Chairman did not adhere to the proposed repayment methods. Therefore, as of February 2001, the remaining unpaid balance for the ineligible charges totaled \$6,454.

The Executive Director was responsible for the day-to-day management of the PHA's programs. The responsibilities included approving all expenditures and writing checks. The general accounting services were contracted to an independent accounting firm which maintained a detailed monthly and annual analysis of the PHA's financial activities. The Independent Public Accountant's 1998 financial statements included a finding regarding the ineligible expenses. However, the Executive Director did not timely submit the 1998 financial statements to HUD. By overriding existing internal controls, the Executive Director allowed the Chairman to continuously use the credit card for ineligible expenses. To ensure that no additional ineligible expenses were incurred, the Executive Director cancelled the applicable credit card on February 26, 2001.

## **RECOMMENDATIONS**

We recommend you:

- A. Require the PHA to terminate the Chairman of the Board and take appropriate sanctions to prohibit future participation in HUD-related programs and/or developments.
- B. Require the Chairman to reimburse the PHA \$6,454 from personal funds for the ineligible expenses. Also, determine if any other expenses were incurred after January 2001, if so, reimburse the funds to the PHA.

**INELIGIBLE PERSONAL CHARGES DECEMBER 1997-DECEMBER 1998**

<b><u>Billing Month</u></b>	<b><u>Monthly New Charges</u></b>	<b><u>Instances Card Used</u></b>	<b><u>Ineligible Amount</u></b>	<b><u>Repayments</u></b>	<b><u>Ineligible Amount Owned</u></b>	<b><u>Eligible Amount</u></b>
12/97	\$ 428	6	\$ 428	\$ 428	\$0	\$0
1/98	759	8	759	759	0	0
2/98	359	3	304	304	0	55
3/98	757	8	757	757	0	0
4/98	606	4	606	618	(12)	0
5/98	841	9	841	0	841	0
6/98	680	6	680	0	680	0
7/98	1,181	9	1,181	881	300	0
8/98	1,160	8	514	0	514	646
9/98	789	8	789	0	789	0
10/98	244	3	244	200	44	0
11/98	612	5	612	0	612	0
12/98	<u>268</u>	<u>3</u>	<u>268</u>	<u>0</u>	<u>268</u>	<u>0</u>
Total	<u>\$ 8,684</u>	<u>80</u>	<u>\$ 7,983</u>	<u>\$ 3,947</u>	<u>\$ 4,036</u>	<u>\$ 701</u>

**INELIGIBLE PERSONAL CHARGES 1999**

<b><u>Billing Month</u></b>	<b><u>Monthly New Charges</u></b>	<b><u>Instances Card Used</u></b>	<b><u>Ineligible Amount</u></b>	<b><u>Repayments</u></b>	<b><u>Ineligible Amount Owned</u></b>	<b><u>Eligible Amount</u></b>
Prior 97-98	\$ 8,684	80	\$7,983	\$3,947	\$4,036	\$701
1/99	244	2	244	0	244	0
2/99	142	2	87	0	87	55
3/99	15	0	0	600	(600)	15
4/99	0	0	0	0	0	0
5/99	0	0	0	0	0	0
6/99	10	1	10	0	10	0
7/99	226	0	226	0	226	0
8/99	1,025	4	469	0	469	556
9/99	58	1	58	0	58	0
10/99	0	0	0	0	0	0
11/99	0	0	0	0	0	0
12/99	<u>170</u>	<u>1</u>	<u>170</u>	<u>25</u>	<u>145</u>	<u>0</u>
Subtotal	<u>\$ 1,890</u>	<u>11</u>	<u>\$1,264</u>	<u>\$ 625</u>	<u>\$ 639</u>	<u>\$ 626</u>
Total	<u>\$10,574</u>	<u>91</u>	<u>\$9,247</u>	<u>\$4,572</u>	<u>\$4,675</u>	<u>\$1,327</u>

**INELIGIBLE PERSONAL CHARGES JANUARY 2000-JANUARY 2001**

<b><u>Billing Month</u></b>	<b><u>Monthly New Charges</u></b>	<b><u>Instances Card Used</u></b>	<b><u>Ineligible Amount</u></b>	<b><u>Repayments</u></b>	<b><u>Ineligible Amount Owned</u></b>	<b><u>Eligible Amount</u></b>
Prior 99 balance	\$10,574	91	\$9,247	\$4,572	\$4,675	\$1,327
1/00	262	4	262	0	262	0
2/00	304	1	249	61	188	55
3/00	496	3	478	0	478	18
4/00	59	1	59	380	(321)	0
5/00	0	0	0	(380)	380	0
6/00	110	3	110	0	110	0
7/00	59	1	59	0	59	0
8/00	59	1	59	0	59	0
9/00	833	2	170	0	170	663
10/00	200	2	200	0	200	0
11/00	54	1	54	100	(46)	0
12/00	125	2	125	115	10	0
1/01	115	4	115	0	115	0
As of 2/01	<u>N/A</u>	<u>N/A</u>	<u>\$ 0</u>	<u>(115)</u>	<u>115</u>	<u>\$ 0</u>
Subtotal	<u>\$ 2,676</u>	<u>25</u>	<u>\$ 1,940</u>	<u>\$ 161</u>	<u>\$1,779</u>	<u>\$ 736</u>
Total	<u><u>\$13,250</u></u>	<u><u>116</u></u>	<u><u>\$11,187</u></u>	<u><u>\$ 4,733</u></u>	<u><u>\$6,454</u></u>	<u><u>\$2,063</u></u>

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